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SUBJECT: EGYPT MONTHLY ECONOMIC REPORT: MARCH AND APRIL 2005

Summary

1. (U) In this edition:

Banking and Finance: Parliament considers amendments to the Banking Law and the first foreign medical insurer enters Egypt's market.

Telecom and IT: The Government of Egypt (GOE) announces plans for a public offering of shares in Telecom Egypt, while the Minister of Communication and Information Technology leads a delegation to the CeBit exhibit in Germany. Alkan Holdings sells part of its stake in Vodofone, Raya announces a public offering, Inmarsat introduces Regional Broadband Global Area Network technology to Egypt, Bank of Alexandria concludes a deal for an IT upgrade, and Egypt hosts a "smartcard" technology conference.

Energy and Oil: Parliament approves deals in the energy field, British Petroleum announces a new gas discovery, while British Gas begins delivery of gas to a new processing facility. Russian firm Gazprom signs a cooperation agreement with the Egyptian Gas Holding Company.

Transportation: A new airport opens in Al Alamein, and Suez Canal revenues reach \$260.8 million in February 2005.

Environment: Researchers discover new fossils in the Valley of the Whales, Ethiopian Prime Minister Zenawi praises the current status of the Nile Basin Initiative, and Egypt and the EU sign an agreement for tourism development in the south Sinai. End Summary.

Banking and Finance

2. (U) In mid-April the GOE referred to the Shura Council and People's Assembly a bill amending Banking Law 88 of 2003. The amendments will: 1) allow banks to establish credit bureaus; 2) prohibit bank managers from managing more than one bank under the CBE's supervision, which will remove most public banks chairmen from the boards of joint venture banks; 3) exempt securities issued by the CBE from taxes and fees; 4) facilitate banks' foreclosure on real estate used as collateral for loans; and 5) reduce the minimum capital requirement for foreign exchange bureaus from LE 10 million to LE 5 million.

3. (U) In April the British "BUPA" medical insurance company received a license to operate in the medical insurance market. BUPA is the first foreign company to acquire such a license. The company will operate under BUPA Egypt Insurance, with an authorized and issued capital of LE 100 million and LE 30 million, respectively. The company is expected to start operations in July 2005.

Telecommunications and Info Tech

4. (U) Minister of Communication and Information Technology Tarek Kamel, on a visit to London in March, indicated that Telecom Egypt (TE) would sell 20% of the company in a public offering by the end of 2005. In TE's last two bond issuances, demand substantially exceeded the initial offer, raising LE 3.38 billion and LE 2 billion respectively. Foreign investment funds from the U.S., UK, Belgium and the UAE participated in the two previous bond sales. Press reports indicate that France's Orange Telecom has offered to purchase a majority stake in TE for \$5 billion. TE representatives have indicated that the GOE is likely to accept the French company's offer, seeking to complete the sale by December 2005. Contacts in the telecom sector have

expressed skepticism, however, that the deal could be completed by the end of the year.

15. (U) Also in March, Kamel led a delegation of 19 Egyptian telecom and IT company representatives to the annual CeBIT Information and Communication Technology exhibition in Hanover, Germany. The delegation reportedly concluded several deals with foreign firms, valued at \$1.2 million. Egyptian firm SoftLock signed three agreements with Byte University (UK), the Taiwanese company JPCC Link and the German firm Aiexistence. The Ministry of Communication and Information Technology (MCIT) also signed an agreement with a leading French telecom company to invest \$50 million in Egypt's IT sector. Kamel announced at the exhibition that Egypt would host an Arab-African preparatory meeting for the second conference of the World Summit on Information Society.

16. (U) In mid March, the Egyptian conglomerate Alkan Holdings announced the sale of part of its stake in Vodafone Egypt. The Chairman and founder of Alkan Holding, Mohamed Mahmoud Nosseir, indicated that proceeds from the sale would be used to finance new tourism projects. The sale will reduce Alkan's overall stake in Vodafone to 5 percent. Vodafone recently announced profits of LE 777.9 million for the first nine months of FY 2004/05, a 4.6% decrease from the same period in FY 2003/04.

17. (U) On March 28, Inmarsat Ltd, a global satellite communications provider, announced that it would begin marketing its Regional Broadband Global Area Network (Regional B-GAN) services in Egypt. Regional B-GAN will offer mobile data communication to industries operating in remote areas where telecommunication and/or high-speed data communication are not currently available. R-GAN services operate at twice the speed of current terrestrial General Packet Radio Service (GPRS) services.

18. (U) In late March, the state owned Bank of Alexandria concluded a deal worth LE 23.7 million with Infosys Technologies, an Indian IT Company, to computerize and improve the bank's operations, including electronic banking, and customer relations management, among other things. Bank of Alexandria is undergoing management and operational restructuring, in anticipation of privatization by the end of 2005.

19. (U) In April, the Egyptian firm Raya announced it would hold an initial public offering (IPO) of LE 400 million. Raya conducted a promotional road show for the IPO in the Gulf region during the second half of April. Bahraini firm Biltone Securities and Investment will manage the IPO. In 2004, Raya expanded its operation in the Gulf region, Algeria and the U.S., recording profits of LE 29 million pounds, up from LE 4.9 million in 2003.

10. (U) On April 11, the third international conference and exhibition for "smartcard" technology was held in Cairo. International experts discussed the challenges facing the Egyptian banking sector, particularly switching from magnetized to smartcard technology for credit and debit cards, in line with international standards. Use of smartcard technology in e-government transactions was also discussed.

Oil and Energy

11. (U) In the second week of March, British Petroleum (BP) Egypt announced a new gas discovery in the Ras El Barr concession in Egypt's Nile Delta region. The announcement indicated that a new well, 70 kilometres northeast of Egypt's Mediterranean city of Port Said, had tested at 22-million cubic feet per day. It added that the natural gas was of high quality with no impurities. Hesham Mekawi, President of BP Egypt, indicated that the proximity of the discovery to existing infrastructure would allow for quick development of the new well at minimal cost. A joint venture company, Gupco (grouping BP and the state-owned Egyptian General Petroleum Corp), will operate the development.

12. (U) In late March, Aleksei Miller, head of the Russian natural gas monopoly Gazprom, signed a cooperation agreement with the Egyptian Gas Holding Company EGAS. The agreement serves as the basis for the further development of bilateral cooperation in the exploration, processing and transportation of gas. According to Miller, a special Russian-Egyptian group will be set up to devise specific projects for gas cooperation.

13. (U) Also in late March, the Shura Council Committee for Industrial Production and Energy approved measures taken by the Minister of Petroleum to conclude two new oil and gas exploration agreements and to amend four additional

agreements comprising a total investment of \$843 million.

14. (U) In mid April, British Gas (BG) and partners PETRONAS and the EGAS delivered the first gas shipment from the offshore Simian Sienna fields to the liquid natural gas (LNG) processing center at Idku. Also in mid-April, BG and partners Edison International and EGAS delivered the first gas shipment from the Rosetta Phase Two operation to the Egyptian domestic market. BG Group's Executive Vice President and Managing Director Stewart Fysh indicated that both events were significant developments in Egypt's energy sector. Gas from the Simian Sienna fields would eventually be shipped to high value markets in Western Europe and the U.S., while gas from the Rosetta Phase Two operation would fill Egypt's growing domestic demand. Gaz de France has signed a 20 year sales and purchase agreement for Egyptian LNG, much of which will be shipped from the Idku production facility starting in June 2005.

Transportation

15. (U) In late March, the second "Build, Own, Operate, and Transfer" private airport in Egypt started its commercial operations at Al Alamein on Egypt's north coast. A charter flight arrived from London on March 21, the same day the airport was inaugurated by the Ministers of Tourism and Civil Aviation. Reports indicate that weekly charter flights between Italy and Al-Alamein will also be scheduled. KATO Group, chaired by Egyptian businessman Ibrahim Kamel, is the largest shareholder in the airport.

16. U) Suez Canal revenue reports for February were issued in early March. Revenues increased by about 9% to \$260.8 million in February 2005 compared to February 2004. A 3% increase in tolls came in force on February 1, 2005.

Environment

17. (U) During the first week of April, the press reported discovery of a 15-meter long, 40 million year old whale fossil in the Valley of the Whales northwest of Fayoum oasis in Egypt's Western Desert area. Dr. Philip Gingerich, Professor of Geology and Director of the Museum of Paleontology at the University of Michigan, is the head of the research team that made the discovery. According to Gingerich, the fossil is the best-preserved remains of the "King Lizard" whale. The fossil will be shipped to the U.S. for further study and then returned to Egypt. An MOU was also signed between the University of Michigan and the Egyptian Environmental Affairs Agency to cooperate in finding ways to protect the Valley of the Whales, including possibly declaring it a natural heritage area and/or developing a scientific/tourist facility at the site.

18. (U) At an April 17 meeting between Ethiopian Prime Minister Meles Zenawi and President Mubarak in Cairo, the two leaders discussed, inter alia, the Nile Basin Initiative (NBI). Zenawi expressed satisfaction regarding the current status of NBI discussion. Zenawi had earlier criticized Egypt's Nile water policy and its negative effect on Ethiopia. Also during Zenawi's visit, the Egyptian and Ethiopian foreign ministers signed two agreements relating to the standards for importation of meat from Ethiopia and training of Ethiopian nationals in the management and tourism fields.

Tourism

19. (U) During the first half of April, the EU and Egypt signed a regional development project agreement under which the EU will provide LE 460 million for development of infrastructure and tourism facilities in the south Sinai area.

Economic Statistics

20. (U)

Exchange Rate:

	(03/31/05)		(04/30/05)	
Egyptian Pounds/\$	Buying	Selling	Buying	Selling
Avg. Bank/Bureau Rate	5.788	5.815	5.786	5.811

Capital Market:

	(03/31/05)	(04/30/05)
Capital Markets Authority Index	1528	1619
Hermes Financial Index	32650	36251
EFG Index	17182	19313

Value of Traded Securities (LE millions/month)	13414	7894
Volume of Traded Securities (million shares/month)	394.8	166.6
Interest Rates: (percent, monthly comparison)		

Interbank Overnight	9.8	10.8
T-bills (182 days)	NA	NA
T-Bond (maturing 01/06)	No Trading	No Trading
T-Bond (maturing 04/09)	No Trading	No Trading

Foreign Reserves:
(US \$ billion, official gov't figures)

	(02/2005)	(03/2005)
	17.230	18.043